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Addendum to
"Some Suggestions on
Tax Revision"
and
The Sales Tax

BY
OTTO H. KAHN

308
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Box 104

APR 7 - 1937

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BY

BASED ON
AN ADDRESS BEFORE THE SECOND
NATIONAL INDUSTRIAL TAX CONFERENCE,
NEW YORK, N. Y., OCTOBER 22, 23, 1920

I

THE first essential for the normal conduct and the due expansion of the country's commerce and industry is a regular flow of capital. There are only two main ways to provide the needed capital, i. e., either by means of individual (and corporate) accumulation as the result and reward of work, enterprise and saving, or through action by the State, which means Socialism.

The framers of our present tax system have been all too oblivious to the inevitable consequences of the policy which it embodies.

They have violently interfered with the flow of capital and the "normalcies" of commerce and industry. They have compelled corporate and individual business to infringe upon their necessary *cash*

working capital far beyond the safety point.

Taxes must be paid in cash. You cannot pay them in materials or merchandise, or bills receivable or book assets. But while the outgo in taxes payable to the Government is all cash, the income of most businesses is cash only to a limited extent.* Moreover, every expanding and progressive business has continuous need of additional capital. Therefore, the accepted practice in prosperous and properly conducted concerns has long been to withdraw or distribute only part of the annual profits, leaving the rest in the business as additional working capital and to pay for improvements, additions to plant, etc. But if the Government appropriates to itself an excessively large portion of such profits through extreme surtaxes and a clumsily devised excess profits tax, the only way for business to meet the situation thus created is either to restrict normal expansion, which means

*The recent semi-panicky collapse in the market for securities may be ascribed, in considerable part, to forced offerings by those in pressing need of cash with which to pay taxes.

lessened production and lessened employment, or to incur debts to an undue extent.

Under the circumstances which prevailed when the choice had to be made, the latter course was the natural and inevitable one. Taken together with the action of various other elements influencing the situation, it became instrumental in causing an intolerable strain upon our financial resources, a scramble for funds, credit inflation, mounting costs and finally forced liquidation and a sudden and violent shrinkage of financial, commercial and industrial values, including the products of agriculture.

I do not mean to overstate the measure of responsibility which attaches to our tax policy and system, for bringing about that melancholy sequence of events. It is more than probable that, to a degree of varying intensity in different countries, some such sequence of phases would have come in any event in the wake of a hugely destructive war, followed by peace treaties lamentably, indeed almost inconceivably, defective, especially in

their economic and financial aspects, and by an era of governmental wastefulness and inefficiency and private extravagance and lack of restraint, here and elsewhere.

But ill-conceived taxation, excessively concentrated on business and individual accumulation, and causing, among other things, malfunctioning of the investment market and a great scurrying of capital into tax-exempt securities, has unquestionably been a strong influence in helping to bring about the ills that beset us, and in broadening their harm and intensifying their malignity.

The thought and purpose underlying the fiscal policy inaugurated in 1917 was crudely to "take it out of the rich." And how has it worked? The rich, it is true, have been inconvenienced and handicapped, but far more inconvenienced and handicapped have been trade, industry and agriculture; and the greatest hardships from the resulting conditions have fallen, unfortunately, on those of small and moderate means. It is an old and sad truth that the effect of economic blundering by governments is always felt

most by those least able to protect themselves.

As late as 1913, over ninety per cent of our total Federal revenue was provided by indirect taxation. That was far too large a proportion. It was a wise and just determination, by the enactment of the Income Tax and in other ways to increase direct taxation.

But we have gone to the opposite extreme and stepped beyond the line of equity and practical wisdom in establishing our present tax system in which indirect taxation produces barely twenty-five per cent of our total revenue.

I fail to see that this extreme and sudden reversal of our accustomed revenue policy, causing the ratio of our direct taxation to exceed that of any of the other leading countries, has added to the well-being and contentment of the people and the balanced prosperity of the country. It appears indeed to have accomplished very much the opposite.

That system may gladden the heart of the radical and gratify the rigid logic of the doctrinaire. Its virtues may be

attested, and practical objections against it disproved, on paper, by massed and marshaled statistics. Some of our more extreme counsellors would even go further and are flirting with the more desperate expedients, to which certain of the nations of Europe in their grievously impoverished condition have been forced to resort.

But, to sober reflection, it would seem apparent that we cannot hope for a return to normal conditions of trade, industry, finance and prices until, among other things (foremost among which is reduction in Government expenditures) we retrace the steps rashly taken partly under the impulse of war conditions and partly under the inspiration of class animosity and sectional bias, in the matter of taxation. I do not see how an adequate supply of capital for the country's needs, including, necessarily, the vigorous pursuit of our foreign trade, can become available otherwise.

Nor can people be expected to stake their means in enterprise and venturing if, in the event of their being successful,

the bulk of the fruits of their effort, skill and risk is taken away from them by the combined operations of extreme surtaxes and an uncouth excess profits tax.

Ill-judged taxation has done its work in helping to kill, for the time being, the goose that laid the golden eggs, as the framers of that measure were warned it would.

Some are seeking the cause for the lamented demise of the aforesaid goose in financial deflation.

It is not financial deflation which has hit the farmer and the cotton grower and has caused the value of their products to shrink below the cost of production. It is not financial deflation which has brought about the economic turmoil that confronts us to-day. As a matter of fact, there has been no financial deflation thus far.

Several causes are responsible for our present discomfiture, but among them "advanced" taxation is in the front rank.

It is high time that practical considerations and experience in affairs be given

more adequate recognition, in dealing with our fiscal problem.

We should seek to create an American tax system adapted to America's situation. Of course, the experiences of the older countries of Europe in the matter of taxation, are a valuable guide to us, but conditions differ. Moreover, as to the two principal measures which we have adapted from Europe, i. e., the progressive income tax and the excess profits tax, we have worsened them in the process of adaptation. Our neighbor, Canada, has managed, in several respects, to create a distinctively Canadian tax system.

II

Coming now to the report of your Subcommittee, I wish to record, first, my appreciating sense of the industry, the ability, the public spirit and the earnest seeking after the truth, on the part of those who framed it. Whether or not we agree with their conclusions, these men who gave their best thought and much of

their time to investigating the pressing and important subject of tax revision and to putting forth a definite program, are entitled to credit and gratitude.

Comment on the Committee's report naturally divides itself into two parts: First, as to what taxes ought to be abolished or modified; secondly, as to what taxes ought to be substituted in order to make good the resulting deficiency.

I shall assume that you are generally in accord with the view of the Committee as to the aggregate of revenue which ought to be raised for the next few years, though I have little doubt that this aggregate can be, and I trust will be, reduced by greater efficiency, better methods and less wastefulness on the part of the Government, and by a curtailment of undue governmental activities and interferences.

The reduction thus securable ought to amount to a very large sum, but we have learned not to be oversanguine in our expectations concerning governmental reforms, and even assuming unaccus-

tomed vigor and thoroughness in their application, the results cannot, in the nature of things, materialize very rapidly.

Leaving aside the well-founded and timely suggestions of the Committee as to minor modifications, I endorse fully their recommendation for the repeal of the Excess Profits Tax and a downward revision of the extreme rates of individual surtaxes. Their arguments on both these points are so explicit and, in my opinion, so incontrovertible that I need not take your time in attempting to add to them.

I have been somewhat reluctant to reach the conclusion that the *Excess Profits Tax* should be abolished entirely, because, in theory, it is a right and just tax. Nor does it necessarily have to be as crude, freakish, complex and generally harmful as our own variety of the species has proved to be.

But even if it were considerably improved and simplified, it still remains a tax of such acute intensity in its effect upon and interference with, the estab-

lished ways of trade and industry, and of such complexity of application and difficulty of administration, that its virtues are overbalanced by its drawbacks.

It is conceivable that somebody may devise a kind of excess profits tax to which those overbalancing objections do not apply, but I do not know of anyone who has succeeded in doing so either in this country or abroad.*

As to our *Surtaxes*, the most conclusive practical condemnation of their upper schedule is afforded by the fact, as attested by the Government's income tax reports, that the higher brackets are producing steadily less revenue. That is to say, what was manifestly bound to happen under a tax beyond all reason and precedent, has happened.

The possessors of incomes of considerable size have withdrawn more and more

*An English writer on taxation, Mr. Raymond W. Needham, has well said: "The excess profits duty we have accepted as a pardonable lapse into economic bad manners in the stress of the war. A coarse, crude thing, justifiable as a device for raising money in large sums in a hurry, and for placating the cry for the blood of the war profiteer; but inexcusable and unforgivable in these days Credit was shut off, and the excess profits duty was put up. It was magnificent, but it was destructive; and the slump is upon us."

from devoting their funds and their activities to business use, constructive effort and venturing. A large part of their incomes has been placed beyond the reach of taxation. Numerous transactions which ordinarily would have been consummated and which, under reasonable rates of taxation, would have yielded substantial revenue to the Government, have simply been left undone because of the enormous tax to which they would have been subject.

Intemperate legislation has defeated its very object. The country is afflicted with all the hampering and troublous consequences flowing from the operation of an extreme statute, without even gaining the advantage of the revenue which was supposed to result from it.

Let me take occasion in this connection to say that the assertion—held almost axiomatic by many writers on taxation—that the income tax is not "shiftable" is only partially correct.

An income tax of reasonable proportions rests where it is laid. It is not passed on. When it becomes excessive

and oppressive, it brings about a deviation from normal conditions and causes a readjustment which in effect means a shifting of the tax to a material extent, not to mention the total avoidance of the tax through the instrumentality of tax-exempt securities.

In thus taking issue with the doctrine of the "non-shiftable" of the income tax, I am not venturing to put my theory against other people's theory. I am simply stating a *fact* from my own practical experience of actual happenings.

A similar discrepancy as between theory and actuality may be noted in the writings of several economists concerning the excess profits tax. A distinguished member of that fraternity, in a very interesting volume recently published, shows that prices have not moved either up or down in any relationship to the excess profits tax. They moved up between 1915 and 1917, when there was no excess profits tax in existence; they did not rise proportionately when that tax was imposed, nor did they fall when the tax was reduced, but, on the contrary,

they continued to rise after the rate of the tax had been lowered. The intimation resulting from this showing is that the excess profits tax had no appreciable effect on prices and generally was not passed on.

But such a conclusion is fallacious. It is related to the specious logic "post hoc, ergo propter hoc" (*after it, therefore because of it*). No one can know to what extent the excess profits tax was passed on or affected the course of prices. To claim or "prove" that it was not shifted or had no effect on prices is just as untenable a contention as the sweeping assertion by the critics of that tax that it is almost invariably added to the price.

The fact is that the elements which put prices up during the past five years and which, of late, have been putting them down, are more fundamental and of more determining force than the excess profits tax. The fact is further that the extent to which it was possible to shift the tax by adding it to prices, depended upon varying circumstances. To a large extent for the past three years these

circumstances were such as to enable such shifting to be done.

That it was done and how, we who are in active business know of our own knowledge. Therefore, no amount of statistics or ingenious arguments can convince us to the contrary. It is not a question of setting up our judgment against that of those who have made a life's study of economic subjects. It is merely putting our actual experience and that of our neighbors against theoretical deductions which may not be disprovable on paper but which do not harmonize with the actual facts.

The writer of the book to which I have referred says:

"What we have, then, is a rise of sixty-one per cent in the price level before any excess profits tax was either levied or discussed, and a further rise of twenty-five points before the tax was passed. Then a comparatively slight rise during the period of our highest excess profits tax and a renewed and rapid rise when the amount was cut in half. If one were satirically inclined, he might affect to look with apprehension upon a further

reduction in the excess profits tax, as tending to increase prices, instead of reducing them."

These oddities in the movements of prices, and their apparent defiant disregard of the excess profits tax as a factor affecting them one way or the other, are easily explained:

The upward climb of prices from July, 1915, to July, 1917, was caused most naturally by the violence and volume of the wholly unprecedented demands of governments for war purposes. Cost was disregarded. Quantity and rapidity of delivery were what counted.

Later on, i.e., in the course of the second half of 1917, our Government (we having entered the war in April) established effective machinery for systematized and centralized buying on behalf not only of itself, but of all the Allies. The bulk of our industries were turned to war purposes, and our Government became practically the sole buyer on a large scale. Moreover, it controlled and determined prices. Consequently, the rise of prices was kept in check, notwith-

standing the war profits and excess profits tax enacted in October, 1917.

The war ended; the excess profits tax was cut in two, *but* at the same time Government control of prices and regulated buying came to an end. Likewise there came to an end certain moral restraints partly self-imposed and partly imposed by public opinion, which had exercised a measurable influence on prices.

Europe, freed from the nightmare of war, under the sentimental rebound following years of restrictions and deprivations, stimulated by unchecked inflation of currency and credit, set out on a spurt of reckless expenditures and started a veritable onslaught of buying in this country.

Our own people, at the same time, were carried along by a wave of almost equally heedless extravagance; governmental agencies for a long time did nothing to check it; indeed, the Government kept well abreast of the procession of improvidence and wastefulness.

What more natural under these cir-

cumstances than that prices rose violently, notwithstanding the reduction of the excess profits tax? And what again more natural than that finally the day of reckoning came and values collapsed wholly irrespective of the excess profits tax?

All that the statistics of the author prove, is that other influences coincidently at work and of extraordinary potency were stronger than the influence of the excess profits tax in shaping the general course of prices. No well-informed man disputed that.

What we business men assert is that the rise in prices from 1917 on has been intensified and stimulated, and probably prolonged, by the effects, direct and indirect, of the excess profits tax and the extreme surtaxes. That assertion stands in no way disproved.

In these remarks, I am far from wishing to reflect upon the value of the work of professional economists. On the contrary, I have the highest respect for scientific theory in economics as in everything else, and I think that the co-opera-

tion of leading economists is essential for devising a wise and sound and well-balanced system of taxation. But I think, in the tax revision that is to come, there should be a far greater measure of collaboration and exchange of views between such men and those engaged in practical pursuits than prevailed in connection with the framing of the existing tax system. Your Committee is to be congratulated on having in its own work established such collaboration.

III

Proceeding to that part of your Committee's report which relates to *taxes to make good the deficiency from the repeal or modification of existing enactments*, time does not permit me to go into this subject in detail. If there be any among you who would care to know my present views on the subject of tax revision, I shall be happy to provide them with a copy of a recently published pamphlet of mine, entitled "Some Suggestions on Tax Revision." For the present dis-

cussion, I shall confine myself to the following few points:

First, as to the amount necessary to be raised in taxes: Apart from the reduction in expenditures reasonably to be expected from the hoped-for adoption of a budget system, and from greater efficiency and stricter economy in the administration of the Government, it seems a fair assumption that the tariff will bring materially increased revenue for the next four years.

I am not in favor of a "high" protective tariff *per se*, but I think there is room and occasion for a readjustment of the existing schedules, which shall not run counter to moderate and broad-minded views and yet substantially enhance the productiveness of the tariff.

After all, "free-trade" England gets a revenue of about one hundred and fifty million pounds sterling (i. e., at normal exchange, about seven hundred and twenty-five million dollars) from its tariff on imports, whilst our tariff for the past fiscal year yielded only about three hundred and twenty-five million dollars.

Second, I venture to doubt the advisability of your Committee's recommendation to single out sugar, coffee and tea for increased taxation. It is quite true that in theory these are eminently proper objects for taxation and that the increase the Committee proposes would be trifling in the effect upon costs to the individual consumer.

But "taxing the poor man's breakfast table" is a formidable slogan to run up against. It does not seem to me that it is wise for a body of business men to volunteer that recommendation, especially when there are various other taxes available, which are not open to similar criticism.

I am thinking, for instance, of a small stamp tax on checks (either at a flat rate, or progressing, in very wide brackets, from 1 cent to, say, 5 cents). I know, certain objections have been urged against such a tax. But there are objections to every tax. It is a question of relativity.

In England, they have had a check tax for many years, and I am not aware that it has produced any harmful or trouble-

some effects. It is the simplest kind of a tax to administer, as it collects itself; and it would yield considerable revenue. I should judge that a flat two-cent stamp tax on checks would produce annually about one hundred million dollars.

Third, with due respect to your Committee, may I make free to submit whether it is not going beyond the needs and the fitness of the occasion and inviting ill feeling and antagonism among the constituents of the body which it represents, if it singles out for taxation, as it does in its recommendations, particular industries or products.

The National Industrial Conference Board aims, as I take it, to be representative of industry as a whole. Would it not be more appropriate, then, that in respect of the taxation of industries or industrial products, your Committee confine itself to stating general conclusions, leaving to Congress the inevitably invidious task of selecting, if it deems well, particular industries or industrial products as suitable instrumentalities for revenue purposes?

Fourth, and last, the *Sales Tax*. I admit that I have wobbled and wavered on this subject. Indeed, I am not yet in a state of assured equilibrium.

I make that confession unblushingly. When a man is called upon to advise upon a measure, the enactment of which would involve pecuniary advantage to him, as the substitution of the sales tax for other taxes necessarily would to those situated as I am, he must "lean over backwards." Before committing himself to its endorsement, he must feel sure in his own mind and conscience, beyond any possible question, that the measure proposed is the best for dealing with the condition or problem, to which it is to be applied, and that no element of personal interest enters into the position which he takes.

At the time that Congress was engaged in framing the first war revenue bill, i. e., in the spring of 1917, I first suggested consideration of a small tax on sales. I have repeated that suggestion more than once since then. I make it still. But I do not see my way to go further as yet,

than to suggest thorough and unbiased study of the question. In my own mind, I have not yet reached a definite conclusion between the arguments pro and con.

The sales tax has great and manifest advantages. It likewise has distinct drawbacks. On the whole, I am inclined to think that rather more can be said for it than against it, in view of the fiscal conditions which we have to meet. I am frank to say that the arguments set forth in the report of your Committee, though I appreciate their weight, have not convinced me to the contrary.

A sales tax would undoubtedly be highly productive of revenue; it would, I believe, diminish the "loading" of prices; it would be free from the injurious effects of other taxes on the natural flow of capital; it ought to be relatively simple of collection; it would not require the employment of lawyers and accountants by the taxpayer and the irritating and worrying work of grappling with intricate schedules; it could be paid as it accrues, say at the end of every month, instead of being ascertainable only at the end of the

year and payable thereafter. But I am bound to say that with such light as I have on the subject at this time, I should not feel justified to support any of the concrete proposals for a sales tax, thus far brought forward.

a. The proposal of the thorough-going advocates of a "gross sales or turn-over" tax is that the excess profits tax be abolished, that the surtaxes be greatly reduced or done away with entirely; that all specific business taxes be eliminated, and that the whole resulting deficiency be made up by an all-embracing tax of one per cent on each turn-over or sale (excepting a certain minimum) of all commodities, real estate, etc., or, in lieu thereof in those instances, in which a turn-over tax would not be applicable, a tax at the same rate on gross income. They believe that the yield from such a tax would be so large that it would be possible to exempt entirely from income taxation all those having incomes of less than \$4,000 per year, which estimate may or may not be greatly excessive.

Some of the *necessary* discriminations

involved in the application of the proposed scheme as between those who would pay a tax on turn-over and those who would pay on gross income, would require a lot of explaining to public opinion, to put it mildly.

The adoption of the plan of the "thorough" would mean that the great bulk of our revenue is again to be raised by a consumption tax. To state that proposition is, I believe, to indicate the verdict which the majority of the people would pass on it, notwithstanding all arguments in its favor, such for instance, as the plea that, of that particular consumption tax a great part would be paid by the well-to-do, that generally it would add only a small percentage to the ultimate cost of things and that this percentage would be much less than what is added to meet our present taxes, and so forth.

b. The more moderate proponents of a sales or turn-over tax would limit it to each sale or turn-over of commodities only, the rate advocated being likewise one per cent. Their principal spokesmen

estimate the yield of such a tax at somewhere near two billion dollars and believe that it would be wholly "painless" in its operation.

c. A third proposal is to impose a tax not on each turn-over all the way from the original producer to the final consumer (which would naturally mean that the tax is multiplied several fold by the time the article reaches the consumer) but only on sales to the final purchaser, the tax in each instance to be added to the cost of the article sold, as a separate item, just as is now done in the case of the tax on jewelry, on certain articles sold by chemists, etc. That is to say, instead of singling out certain commodities and subjecting them to a tax on sales to the consumer ranging from three per cent to ten per cent, as our existing revenue measure does, *all* commodities would be subjected, on their ultimate sale, to a single uniform tax, the rate generally suggested being three per cent.

Opposition to that tax is based, among other reasons, on the ground that it would

be exceedingly difficult, if not actually impracticable, to define what constitutes ultimate sales. On the other hand, the believers in such a tax, while admitting that the question presents some complexities, maintain that the difficulty is by no means insurmountable and that it can be solved by applying the test of final usage or consumption whatever the nature of the article.

A further elaboration (attractive in theory but very difficult and complicated—perhaps prohibitively so—in operation) of the proposal of a single tax on final sales, is to make the rate varying in scale, say from one per cent to ten per cent, progressing according to the value of the article purchased. For instance, on a five-dollar purchase the tax would be one per cent, i. e., five cents, while on a five thousand dollar purchase it would be ten per cent, i. e., five hundred dollars.

d. Another kind of turn-over tax has been brought forward recently, namely, a tax at the rate of one-fifth or one-quarter of one per cent on bank deposits. That

would mean, to all intents and purposes, a tax on practically the total of the country's financial turn-over. Such a tax would be nothing less than calamitous in its inevitable results.

If the turn-over effected by the intricate and vast machinery of finance were to be subjected to any general tax—unless mitigated by exceptions so broad as to make it practically ineffective—the resulting disturbance would be of incalculably far-reaching effect. A large part of the items which make up the enormous total of our financial turn-over, are not transactions at all in the accepted sense of the term, but merely clearances, involving of themselves no element of profit, customary conveniences which in the course of time have become necessities. Any one acquainted with the facts will appreciate that the smooth and unimpeded working of that machinery, which it has taken generations to bring up to its present perfection and almost automatic action, has become simply indispensable for the trade and industry of the country, of whatever nature.

It may be appropriate, in this connection, to point out that what the financial dealer sells—whether bank, banker or broker—is not commodities, in any right sense of the term, but services and interest. The piece of paper representing a bond or a share has value according to the extent that it brings, or is expected to bring, interest or dividends. Indeed, the people of that most logical of nations, France, speak habitually of buying “rente” (i. e., yield, interest) not bonds. It follows that the financial turn-over of capital through or by banks, bankers and brokers, cannot be measured for taxation purposes by the same standard as the turn-over of commodities—nor is it so measured in the principal countries in which a turn-over tax prevails.

Moreover, the capital of the financial dealer is turned over dozens of times each year. The units which compose his profits, in the ordinary course of business, must necessarily be small, much smaller than the units of normal profit in the merchandizing or manufacturing business.

More than in any other branch of business activity, it is volume and not the margin on the transaction-units which makes his profits.

I do not mean to imply that certain kinds and portions of the business comprised in the country's financial turn-over are not proper subjects for taxation. As a matter of fact, in various instances they are taxed now, and it may be found suitable and practicable, if a turn-over tax on commodities should be enacted, to increase at the same time, to a reasonably proportionate extent, the fiscal contribution derived from financial operations. But, the fact remains that any tax which is to be applied to any kind of financial transactions must be on a basis appropriate to and reconcilable with the particular nature of such transactions, and cannot be grouped with a general tax on commodities without bringing about very grave and widespread economic disturbances.

e. Finally, the following suggestion has occurred to me. It may conceivably indicate a middle ground, on which the

advocates and the adversaries of a sales tax might find it possible to meet. I do not put it forward as yet, as a proposal. I am simply thinking aloud:

My suggestion is whether it would not be worth while to try the experiment of a carefully designed, gross sales or turn-over tax, limited to commodities, but only at a rate which would be an almost nominal one, say, one-third of one per cent (exempting, possibly, the sales of their products, including live stock, by farmers). That would mean, assuming even that the tax passes in *all* instances from the original producer, manufacturer, jobber and retailer to the ultimate consumer, an almost imperceptible addition to ultimate costs.

Such an experiment would enable us to test out the merits or demerits of a gross sales or turn-over tax, without giving any just ground for popular complaint and without bringing about to any substantial degree those undesirable results which the critics of that kind of a tax foresee. A test, for an adequate length of time, on the experimental miniature scale here

suggested, would demonstrate in actual practice the workings of such a tax and would enable public opinion to judge definitely whether it should be retained, enlarged or discarded. Meanwhile, even when applied on that modest scale, the tax ought to produce very considerable revenue.

IV

I have said that I am not prepared as yet to commit myself to any definite recommendation on this controversial question. But there is one recommendation which I do venture to make, generally relating to the subject: namely, that the business community go slow in sponsoring any methods of taxation, which may give valid ground for the impression that, in their contribution to the thought on tax revision, the representatives of business are unduly concerned with conserving their own interests, and aiming to curtail their proper share of the fiscal burden which the country must bear as a legacy of the war.

By all means, let those business men and business bodies who believe that the gross sales or turn-over tax is the best solution of our tax problem and involves the least burden on all the people—and I know that many are profoundly convinced that this is so and that such a tax once in operation will give universal satisfaction and will, indeed, be *the* solution of our fiscal problem—by all means, I say, let those who hold that belief continue their propaganda.

Let them go on to explain and elucidate, and put forth their best efforts to refute such criticism as is being made of their proposal and allay such opposition as now exists to it. If they succeed, well and good. If not, let them turn in and seek to co-operate in good spirit and in good temper to find some other measures of tax-revision, to remedy the ills which now afflict the country as the result of crude and noxious taxation.

I am not moralizing, I am speaking as a practical man from the point of view of what I believe to be the intelligent self-interest of business. When our spokes-

men come forward and claim to be heard and heeded concerning a national problem, as is their right, we must be sure that what we propose is not only economically sound and practically wise, but that it is in accord with modern conceptions of social decency and fairness.

We are asking for relief from those taxes which are particularly irksome to business. It is undeniably true that their effect is oppressive and gravely harmful on all the people and not only on business. Nevertheless, the greater number, probably, will be inclined to see in the elimination of those taxes which are most objectionable to business, a relief primarily to business. It is, therefore, doubly incumbent upon us, in the stand which we take as to the selection of methods for providing that relief, to avoid the appearance of selfish shirking. We all know how large a part popular impressions have in forming public opinion, and how long it takes for the slowly developing proof of facts to rectify such impressions when once they have taken hold.

Business has a rightful claim to an important place at the council table of the nation, a place to which it was called all too rarely for the past eight years. Various indications justify the belief that the people as well as the political parties have come to appreciate more than for a considerable time back, that it is to the detriment of the country to conduct the nation's business without giving proper weight and consideration to the views, and without enlisting the co-operation of the business community.

Auspiciously and gratifyingly, among all callings and in all sections of the country, the sentiment appears to be broadening and deepening that, in the face of the problems which confront the nation, there is need for all well-meaning elements to pull together.

Without intending to prophesy as to the outcome of the approaching election, I believe that there will be every proper disposition in the next four years to give due heed and recognition to the voice of business. It is up to us to confirm and strengthen that disposition. It is up to

us to justify the consideration and the confidence which we rightfully claim.

Finally, my "*caeterum censeo*": The problem of devising a plan and methods of taxation to balance our vast financial requirements is one which vitally affects the progress and prosperity of the country and the well-being of every one of us, whatever our circumstances and station. I am far from underestimating the ability, industry and competence of our elected representatives; but members of Congress, in the midst of their multifarious tasks and duties, cannot possibly find the time to give to this particular problem that concentrated and uninterrupted attention which is commensurate with its importance. I believe that the national advantage would be best served if the legislative powers saw their way to invite a number of duly qualified men of different callings and affiliations, including representatives of business, agriculture, labor and the professions, to sit in continuous session, thresh out conflicting views and evolve a comprehensive scheme, in co-operation, of course, with

and subject to the approval of the Congressional Committees in charge. I believe that collaboration in some such way would be most effectively conducive toward establishing a truly sound policy and well-balanced system of taxation.

December 8, 1920.

Since the foregoing statement was prepared, further thought, study and comparison of views have confirmed me in the belief, that a trial should be given to a "gross sales or turn-over tax," confined to commodities, and limited to a very low rate, say one-third of one per cent.

As near as I am able to estimate (or rather guess, because naturally I must assume a certain volume of trade and a level of prices), I should judge that at the rate of one-third of one per cent, a gross sales or turn-over tax on commodities ought to bring in somewhere between five hundred and fifty million and six hundred and fifty million dollars for say, the next twelve months period. (If initial

sales of farm crops and live stocks are exempted, the yield would be reduced by, roughly speaking, probably ten per cent.)

That is not enough, of course, to make up for the yield from the excess profits tax and from other taxes that ought to be revised or abolished, but it is a very large sum and would go a long way to help in meeting the deficiency to be made good. It is a larger sum than the excess profits tax is estimated, by the Treasury experts, to yield for the same period.

I realize, of course, that my suggestion, in a way, begs the question of the principle by minimizing its application. But that is the very thing I am aiming at. In the matter of raising the vast amounts required from taxation for some years to come, we are dealing with a problem that is largely new. I believe we should do well to keep our minds elastic on this subject, for a while, and by cautious steps, prudently, circumspectly attempt some experimenting, with a view to ascertaining what works out best.

Thus, in gradually establishing the principles by which we mean to be guided in our policy and methods of taxation, we should be building not on the sand of theories and opinions, but upon the solid ground of actual experience.

The main suggestions contained in this statement and my recently published article on "Tax Revision" (to which the present pamphlet forms an addendum) if carried into effect, would yield for the next year, according to such calculations as I venture to offer—with all reserve—not less than \$4,350,000,000. In estimating this yield, I have tried to make adequate allowance for the fact that there is bound to be a shrinkage of business, and still more a shrinkage of profits, as compared to the huge activity and abnormal profits of the past few years. The summarized result of these estimates is as follows:

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| Individual income from surtaxes (based on the assumption that the maximum of income taxation is to be say, 33 per cent—this reduction from the present rates to be effected either, indirectly, by the somewhat complex and intricate method of an abatement of surtaxes on income saved and reinvested, or, which is preferable, directly, by a commensurate revision of the surtax schedule) | \$1,000,000,000 |
| Corporate income tax at the rate of 15 per cent (discontinuing minimum exemptions) but leaving the rate at 10 per cent in the case of public service corporations | 850,000,000 |
| Estate duties. (I have included this item, though I think that inheritance taxation ought to belong to the States and not to the Federal Government) | 100,000,000 |
| Turn-over tax on commodities at the rate of one-third of one per cent. . . | 550,000,000 |
| Customs. | 550,000,000 |
| Internal Revenue, such as Tobacco, Beverages, Transportation, Excise, Stamp and Business Taxes, etc. (This estimate is somewhat less than the aggregate produced by these taxes in 1920. It is based on the idea that certain existing minor taxes which have been found particularly irksome and relatively unproductive shall be abolished and, on the other hand, that some stamp and similar taxes can be increased and that certain new taxes of this nature may be devised.) | 1,300,000,000 |
| Total. | \$4,350,000,000 |

If it should be found that a lesser amount of revenue than here estimated is needed for the coming year, my suggestion would be that the more burdensome taxes be reduced accordingly, but I should still favor a practical test of a gross sales or turnover tax.

ERRATUM

In the book "Some Suggestions on Tax Revision," recently sent you, the last paragraph on page 60 should have read:

It is worthy of mention that in England where the practice of discriminating between "earned" and "unearned" incomes was adopted some years ago, not only is the differential so small as to be of little importance, etc.

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